

Sanitized Copy Approved for
Release 2010/02/02 :
CIA-RDP85T00875R00170001

Sanitized Copy Approved for
Release 2010/02/02 :
CIA-RDP85T00875R00170001

CIA/DER/IM 71-144
Secret

25X1



**DIRECTORATE OF
INTELLIGENCE**

Intelligence Memorandum

Communist China: Highlights Of Trade With Western Europe

Secret

ER IM 71-144
August 1971

Copy No. 66

WARNING

This document contains information affecting the national defense of the United States, within the meaning of Title 18, sections 793 and 794, of the US Code, as amended. Its transmission or revelation of its contents to or receipt by an unauthorized person is prohibited by law.

GROUP 1
Excluded from automatic
downgrading and
declassification

SECRET

25X1

CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
August 1971

INTELLIGENCE MEMORANDUM

COMMUNIST CHINA: HIGHLIGHTS
OF TRADE WITH WESTERN EUROPE

Introduction

1. Western Europe, which was already an important source of industrial goods for Communist China in the late 1950s, became an even more important supplier after the widening of the Sino-Soviet rift in 1960. West European machinery and equipment, steel, and fertilizer have made a sizable contribution to the modernization of China's industry and agriculture. Furthermore, some of the advanced machinery, electronic equipment, precision instruments, and special metals have been important to China's modern weapons program. In 1970, Western Europe provided 31% of China's total imports and 38% of its imports from the Free World.

2. This memorandum discusses the pattern and growth of China's trade with the countries of Western Europe since the break with the Soviet Union. It examines in detail the commodities exchanged between China and these countries - particularly West Germany, the United Kingdom, France, and Italy - and assesses the benefits of this trade to China. Finally the prospects and problems for the future growth of Sino-West European trade are examined.

Discussion

Trends Since 1960

3. Western Europe's trade with China expanded by more than 50% from 1960 to 1970 as China's foreign trade shifted dramatically from the Communist countries to the Free World (see Table 1). Western Europe's share of China's total trade grew from 17% in 1960 to 24% in 1970. In

Note: This memorandum was prepared by the Office of Economic Research and coordinated within the Directorate of Intelligence.

SECRET

25X1

Table 1

Communist China: Perspective on Trade with Western Europe a/

	Million US \$										
	1960	1961	1962	1963	1974	1965	1966	1967	1968	1969	1970 <u>b/</u>
Total trade, all countries	3,975	3,015	2,675	2,770	3,220	3,850	4,205	3,860	3,710	3,855	4,250
Trade with the Free World	1,370	1,335	1,265	1,525	2,120	2,685	3,105	3,060	2,910	3,070	3,375
Exports to	625	560	605	755	1,040	1,345	1,575	1,455	1,430	1,535	1,625
Imports from	745	775	660	770	1,080	1,340	1,530	1,605	1,480	1,535	1,750
Balance	-120	-215	-55	-15	-40	+5	+45	-150	-50	0	-125
Trade with Western Europe	661	415	319	356	425	648	875	1,030	960	945	1,012
Exports to	203	181	149	172	229	300	365	310	335	380	354
Imports from	458	234	170	184	196	348	510	720	625	565	658
Balance	-255	-53	-21	-12	+33	-48	-145	-410	-290	-185	-304

a. Data are rounded to the nearest \$1 million. Figures are based on trading partner statistics and are adjusted to show China's imports c.i.f. and China's exports f.o.b.

b. Preliminary.

SECRET

- 2 -

SECRET

SECRET

the same period, its share of Free World trade with China fell from 48% to 30% because other Free World countries, most notably Japan, have made even greater gains from the reorientation of China's trade. 1/

4. Because of the large component of industrial goods in China's imports, trade with Western Europe has been sensitive to the ups and downs of the Chinese economy. Thus, trade suffered during the post-Leap Forward period, 1961-63, and from the Cultural Revolution in 1968-69. In between, trade with Western Europe recovered rapidly, reaching a peak level in 1967. In 1970-71, trade has again rebounded with the resurgence of the Chinese economy.

5. Western Europe has provided China a valuable alternative to the USSR as a source of imports of modern industrial goods. It has provided China with commodities for economic development which China either lacked or could not produce in sufficient quantity. Imports of grain and fertilizer from Western Europe have supplemented food supplies and aided agricultural development. Chinese industry has benefited in two ways: (1) from imports of important industrial inputs such as iron and steel -- particularly rolled products and special steels -- nonferrous metals, and industrial diamonds, and (2) from the acquisition of up-to-date technology embodied in machinery, equipment, and complete plants. Most of the imports of precision instruments, electronic equipment, and strategic metals go to defense-related industries which have top priority in China's development pattern.

6. Some measure of the value China places on imports from Western Europe is provided by the large trade deficits China has been willing to incur, particularly since 1965 (see Table I). Even though China's exports to Western Europe have grown from 10% to 16% of total exports from 1960 to 1970 and average more than 50% of China's exports to the developed countries, they fall far short of imports from Western Europe. The trade deficit has ranged from \$150 million to over \$400 million during 1966-70. The figure for 1970 was slightly more than \$300 million. Combined with a deficit of \$345 million with Japan and \$200 million with Australia and Canada, China's deficit with the Industrial West reached a record level of \$850 million in 1970. Trade with Hong Kong, Singapore, and the less developed countries as well as remittances from overseas Chinese provides hard currency earnings, which in most years offset the trade deficit with the Industrial West. In 1970, however, China probably had to draw down its foreign exchange reserves to finance the deficit with the Industrial West.

25X1

SECRETMajor Trading Programs

7. West Germany, the United Kingdom, France, and Italy account for about 75% of China's trade with Western Europe (see Table 2). Trade with each has increased substantially over the past decade; the relative positions of the four countries remains the same as in 1960. Exports to the major partners are dominated by traditional Chinese products - foodstuffs, textiles, and crude materials - and the commodity mix is much the same for each country. Imports consist mostly of industrial goods, but in this case the commodity composition varies from country to country (see Table 3).

West Germany

8. Over the past decade, West Germany has been China's leading trading partner in Western Europe. After recovering toward the 1967 peak in 1969, trade dropped 5% in 1970 as both imports and exports fell. West Germany has been a major source of steel and machinery and equipment, and, in the second half of the decade, has become an important supplier of fertilizer, other chemicals, and nonferrous metals, particularly copper and platinum. In the 1963-68 period, West Germany was China's largest West European source of complete plant imports.

9. Economic considerations have been strong in China's trade with West Germany. West Germany does not recognize Communist China and, of late, has been improving relations with the Soviet Union. However, the products of modern industry and the advanced technology from West Germany - for example, metalworking machine tools and precision instruments - are of great value to Chinese industry.

United Kingdom

10. Trade with the United Kingdom boomed from 1963 through 1967 (see Table 2). This advance was halted when political difficulties in late 1967 - which culminated in the sacking of the British Embassy in Peking - caused trade to plummet by about 30% in 1968. A rapid recovery took place in 1969, sparked by large Chinese purchases of nonferrous metals and industrial diamonds. Heavy purchasing of nonferrous metals and industrial diamonds continued in 1970 as imports rose by 7%. Exports fell by a like amount and total turnover in 1970 was approximately equal to turnover in 1969.

11. Imports from Britain are dominated by manufactured goods, over 80% of the total each year. Since 1968, nonferrous metal and industrial diamonds have replaced machinery and equipment as the largest import

SECRET

Table 2
Communist China: Trade with Western Europe, by Country ^{a/}

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
	Million US \$										
Western Europe											
Turnover	661	415	319	356	425	648	875	1,030	960	945	1,012
Exports	203	181	149	172	229	300	365	310	335	380	354
Imports	458	234	170	184	196	348	510	720	625	565	658
West Germany											
Turnover	172	81	68	52	69	137	216	296	272	280	265
Exports	52	35	32	34	49	65	81	65	76	78	70
Imports	120	46	36	18	20	72	135	231	196	202	195
United Kingdom											
Turnover	164	125	78	82	115	152	178	203	141	211	210
Exports	61	73	50	47	59	77	82	68	70	79	69
Imports	103	52	28	35	56	75	96	135	71	132	141
France											
Turnover	84	54	66	86	73	102	159	142	170	110	152
Exports	19	13	15	19	28	39	48	40	51	65	57
Imports	65	41	51	67	45	63	111	102	119	45	95
Italy											
Turnover	63	48	35	40	41	87	113	138	126	128	122
Exports	19	10	12	19	21	34	52	49	43	57	56
Imports	44	38	23	21	20	53	61	89	83	71	66
Others											
Turnover	178	107	72	96	127	170	209	251	251	216	263
Exports	52	50	40	53	72	85	102	88	95	101	102
Imports	126	57	32	43	55	85	107	163	156	115	161

^{a.} Data are rounded to the nearest \$1 million. Figures are based on trading partner statistics and are adjusted to show China's imports c.i.f. and China's exports f.o.b.

SECRET

- 5 -

SECRET

Table 3

Communist China: Commodity Composition of Imports
from Western Europe, by Country, 1969 a/

Commodity	Million US \$					
	Western Europe	West Germany	United Kingdom	France	Italy	Others
<i>Total</i>	565	200	130	45	70	120
Foodstuffs	15	--	--	15	--	--
Textile fibers	15	b/	10	--	b/	5
Other crude materials, fuels, and edible oils	15	b/	b/	--	--	10
Chemical fertilizers	110	20	5	5	30	50
Other chemicals	40	30	5	b/	5	--
Manufactures	375	150	110	25	30	60
Of which:						
Iron and steel	70	50	5	5	5	5
Nonferrous metals	150	50	70	5	--	25
Precision instruments	10	5	b/	b/	--	5
Machinery and equipment	65	15	5	15	15	10

a. Data have been rounded to the nearest \$5 million. Because of rounding, components may not add to the totals shown. Data are adjusted to show China's imports c.i.f.

b. Less than \$2.5 million.

SECRET

category. Because of its position as a major broker in diamonds and as a refiner of nonferrous metals, the United Kingdom has been the principal beneficiary of Chinese purchases of these commodities. On the export side, Britain provides the best West European market for Chinese textiles and light manufactures.

France

12. French hopes for a rapid expansion of trade following recognition of Communist China in 1963 were never realized. Instead, France has merely maintained its third place position in Sino-West European trade, primarily on the basis of periodic Chinese purchases of French wheat. Delays in grain shipments contributed, along with reduced purchases of chemicals and manufactures, to a sharp drop in imports in 1969. However, imports recovered in 1970 as the grain reached China and as deliveries of machinery and transport equipment rose. China's exports to France have edged upward over time.

13. In addition to grain, France is an important source of chemical fertilizer, aluminum, nickel, machinery, trucks, and locomotives. Large purchases of trucks were made in 1966 and again in 1970, when more than 2,500 trucks were delivered under a contract for delivery of 3,000. Also in 1970, China placed an order for 40 electric locomotives worth \$30 million for delivery in 1972, and in June of 1971 another contract was signed for 50 diesel locomotives.

Italy

14. In contrast to trade with the other three nations, China runs only a small deficit in its trade with Italy. Chemical fertilizer is the largest import from Italy, while sales of raw silk top the exports. Italy recognized China in late 1970, and in May 1971 a high-level delegation headed by Italy's foreign trade minister visited China amid hopes for expanded trade. A three-year trade and payments agreement is planned (to be signed in the fall of 1971), but no level of trade was announced nor were any contracts obtained by the delegation. At present, it seems unlikely that Italy will reap any greater benefits from recognition than France did.

Other Countries

15. The remaining 25% of China's trade with Western Europe is distributed among ten other countries, whose trade with China has generally followed the pattern of the four major partners. Although each country does less than \$50 million in total trade with China every year, China does obtain valuable products from them: the Netherlands and

SECRET

Belgium-Luxembourg are major sources of fertilizer; Sweden supplies special steels, woodpulp, and paper; Switzerland is an important supplier of precision instruments and machine tools; and Austria has supplied steel-making equipment. Recently, China has made inquiries about a second L-D process steel plant similar to that purchased from Austria in 1965.

Commodity Composition

16. The pattern of Chinese exports to Western Europe remained fairly stable in 1960-69, a period when the value of exports nearly doubled (see Table 4). Crude materials, the major export category, include silk and other textile fibers, hides, bristles, and other crude animal materials. Foodstuff exports are limited to frozen and preserved items and must face the barriers of the Common Market. Also, in the past there have been problems with Western Europe's health regulations for meat imports, as when Italian health inspectors turned down tinned pork in 1968. Exports of manufactures, which have more than doubled since 1960, are still dominated by low-quality textiles, clothing, and light manufactures, such as footwear, toys, and office supplies. Tin and antimony, major exports in earlier years, have been available only in small quantities recently.

17. Imports from Western Europe are concentrated in the products of modern industry (see Table 5). Foodstuffs, almost all wheat from France, were an important component in the post-Leap Forward (1961-64). Additional purchases were made in 1968-69. These grain purchases have been small in comparison with purchases from Australia and Canada. The small volume of crude material imports consists largely of synthetic textile fibers.

18. As part of the emphasis placed on agriculture in the 1960s, China began importing large quantities of chemical fertilizer. Imports from Western Europe increased by nearly four times, from \$27 million in 1960 to \$124 million in 1967. Western Europe's share of China's total fertilizer imports increased from 11% in 1964 to 62% in 1967 in value terms. With the closing of the Suez Canal, Western Europe has been at a marked disadvantage in competition with Japan because of higher freight rates, and its share slipped to about half of China's fertilizer imports in 1970. In order to maintain their market share, West European producers have been lowering their f.o.b. prices. Because of oversupply conditions among Free World fertilizer producers, China has been able to play off large West European firms such as Nitrex and ANIC against the Japanese producers to obtain the best possible prices. In addition to fertilizers, China imports about \$30 million in industrial chemicals, dyes, and pharmaceuticals from Western Europe each year.

Table 4

Communist China: Commodity Composition of Exports to Western Europe a/

	Million US \$									
	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>
<i>Total</i>	<i>203</i>	<i>181</i>	<i>149</i>	<i>172</i>	<i>229</i>	<i>300</i>	<i>365</i>	<i>310</i>	<i>335</i>	<i>380</i>
Foodstuffs	<u>33</u>	<u>13</u>	<u>11</u>	<u>20</u>	<u>20</u>	<u>35</u>	<u>59</u>	<u>50</u>	<u>57</u>	<u>66</u>
Of which:										
Animals, meat, and fish	5	1	1	4	3	4	12	13	11	22
Grains	10	--	2	1	2	2	4	5	9	4
Fruit and vegetables	5	3	1	5	6	12	19	15	18	19
Crude materials, fuels, and edible oils	<u>114</u>	<u>76</u>	<u>58</u>	<u>86</u>	<u>123</u>	<u>165</u>	<u>195</u>	<u>159</u>	<u>159</u>	<u>170</u>
Of which:										
Oilseeds	20	1	1	6	19	24	24	24	22	15
Textile fibers	21	23	18	33	44	52	61	50	48	65
Crude animal materials	22	23	20	29	34	43	46	37	42	49
Chemicals	<u>5</u>	<u>4</u>	<u>6</u>	<u>8</u>	<u>13</u>	<u>19</u>	<u>25</u>	<u>22</u>	<u>23</u>	<u>27</u>
Manufactures	<u>51</u>	<u>88</u>	<u>73</u>	<u>58</u>	<u>73</u>	<u>81</u>	<u>86</u>	<u>79</u>	<u>96</u>	<u>117</u>
Of which:										
Textile yarn and fabrics	19	20	17	26	36	34	35	33	40	47
Clothing	1	3	1	3	3	4	4	5	5	7
Nonferrous metals	8	57	49	18	17	20	15	10	11	24

a. Data are rounded to the nearest \$1 million. Because of rounding, components may not add to the totals shown. Figures are based on trading partner statistics and have been adjusted to show China's exports f.o.b.

Table 5

Communist China: Commodity Composition of Imports from Western Europe a/

	Million US \$									
	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969
<i>Total</i>	<i>458</i>	<i>234</i>	<i>170</i>	<i>184</i>	<i>196</i>	<i>348</i>	<i>510</i>	<i>720</i>	<i>625</i>	<i>565</i>
Foodstuffs (grain)	--	29	52	47	33	1	6	--	32	14
Crude materials, fuels, and edible oils	37	38	14	12	22	18	22	55	38	27
Of which:										
Textile fibers	19	26	10	10	11	12	11	11	12	14
Chemicals	85	59	53	72	35	93	95	145	175	149
Of which:										
Fertilizer	27	28	31	62	7	66	60	124	119	111
Manufactures	336	107	51	53	106	236	387	520	380	375
Of which:										
Textile yarn and fabrics	23	19	13	11	18	16	7	21	17	12
Iron and steel	148	23	8	13	21	46	87	183	100	70
Nonferrous metals	61	14	8	2	10	53	51	68	108	149
Machinery and equipment	54	30	14	21	40	94	202	189	93	63

a. Data are rounded to the nearest \$1 million. Because of rounding, components may not add to the totals shown. Figures are based on trading partner statistics and are adjusted to show China's imports c.i.f.

SECRET

19. Iron and steel has been a major import item from West Europe. A bulk commodity like fertilizer, iron and steel is vulnerable to higher freight costs. Imports of iron and steel from Western Europe reached a peak of \$183 million in 1967 but dropped off for the next two years as Japan became China's largest supplier. Although imports rose slightly in 1970, Western Europe's share of China's iron and steel purchases continued its decline as purchases from Japan increased by about 50%.

20. In 1968, China sharply increased the value of its imports of nonferrous metals in order to supply industrial needs and to support stockpiling activities. These metals are important to industry and, in some cases, to the modern weapons program. Western Europe has been the major beneficiary of these purchases largely through the London Metals Exchange. Imports from Western Europe reached \$149 million in 1969 and should have retained that level for 1970, as Chinese purchases remained strong. While imports of platinum fell off in 1970, heavy Chinese purchases were noted in copper, aluminum, and nickel. Also, Chinese imports of industrial diamonds were again sizable, totaling \$23 million in 1970, roughly the same as 1969.

Machinery and Equipment

21. Imports of machinery and equipment from Western Europe are significant because they supply China with up-to-date technology to modernize its industry. Table 6 gives the breakdown of machinery and equipment imports for the past five years. Until 1970, when Japan surged into the lead, Western Europe was the largest Free World supplier of machinery and equipment. In 1966 and 1967, deliveries of complete plants from Western Europe boosted the total to more than \$200 million. Subsequently these imports have been falling off. Preliminary returns for 1970 indicate that machinery and equipment imports from Western Europe were about the same as in 1969.

22. Nonelectric machinery has been the dominant sub-category, of which metalworking machine tools and complete plants were the major items (see Table 6). In addition, pumps, textile machinery, and heating and cooling equipment have also been important. The bulge in imports of nonelectric machinery in 1966-67 was due to deliveries on contracts for complete plants.

SECRET

SECRET

Table 6

Communist China: Imports of Machinery, Transport Equipment, and Precision Instruments a/

	Million US \$				
	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>
<i>Total</i>	<u>110</u>	<u>220</u>	<u>205</u>	<u>110</u>	<u>75</u>
Nonelectric machinery	<u>60</u>	<u>125</u>	<u>120</u>	<u>60</u>	<u>35</u>
Metalworking machine tools	15	30	40	30	20
Textile machinery	5	10	5	<u>b/</u>	<u>b/</u>
Heating and cooling equipment	5	10	5	<u>5</u>	<u>b/</u>
Pumps	5	5	5	<u>b/</u>	<u>b/</u>
Other nonelectric machinery <u>c/</u>	30	70	60	<u>25</u>	<u>15</u>
Transport equipment	<u>15</u>	<u>50</u>	<u>50</u>	<u>20</u>	<u>20</u>
Of which:					
Road motor vehicles	10	30	25	10	10
Aircraft	--	--	5	5	--
Ships and boats	5	15	20	5	--
Electrical machinery, apparatus, and appliances	<u>20</u>	<u>25</u>	<u>20</u>	<u>10</u>	<u>10</u>
Of which:					
Electrical measuring and controlling devices	10	10	5	5	5
Professional and scientific instruments and apparatus	<u>15</u>	<u>20</u>	<u>15</u>	<u>15</u>	<u>10</u>

a. Data are rounded to the nearest \$5 million. Because of rounding, components may not add to the totals shown.

b. Less than \$2.5 million.

c. West European trade statistics do not provide data on shipments of equipment for complete plants; however, most such shipments probably are included in this sub-category.

SECRET

SECRET

23. When China turned to the Free World as a source of complete plants 2/ following the break with the USSR, Western Europe became a major supplier. In the period 1963-68, 35 complete plants and major additions to existing plants costing \$150 million were sold to China by Western Europe. These plants were of three main types - chemical plants, plants producing special-purpose manufactures, and plants for the steel industry. A major objective in these purchases has been to acquire modern industrial technology and to provide prototypes to copy. During the Cultural Revolution, Chinese interest in purchases of complete plants dropped off sharply. In 1969-71, with the strong economic recovery and the advent of a new five-year plan, negotiations for and purchases of whole plants have been renewed. Again, the primary interest is in plants for the metallurgical and chemical industries. Four contracts have been signed with Western Europe, including an air separation plant from France, an electrode plant from Britain, and an engine block foundry from West Germany. In addition, there are about a dozen other plants in various stages of negotiation.

24. After 1966-67, when large purchases of trucks and ships were made, imports of transport equipment dropped off sharply. This category revived in 1970 when more than 2,500 trucks were delivered from France. Imported trucks provide China with heavy-duty cargo and dump trucks needed by China's military forces and for mammoth construction projects in China's rugged interior. The ships imported from Western Europe are used ships acquired for scrapping and for expanding the Chinese merchant fleet.

25. A critical class of imports from Western Europe is electronic equipment and precision instruments. These include computers, sophisticated measuring and testing devices, electrical controlling devices, and scientific apparatus. Much of this equipment has direct applications in China's modern weapons program. From 1963 to 1969, about \$120 million worth of these goods were imported from Western Europe, with the United Kingdom, West Germany, and Switzerland supplying 80% of the total. Western Europe supplied 70% of China's imports of these items from the Free World.

2. *Throughout this memorandum the terms complete plants and plant additions do not include the buildings and other structures that are constructed at a plant site. These structures are usually designed and built by Chinese personnel using indigenous construction materials. The terms refer to blueprints, machinery, and equipment used to set up production lines or complete components for processing raw materials at new or existing plants.*

SECRET

SECRET

Prospects

26. Early returns from China's trading partners, contract information, and other current reporting - especially from the Spring Canton Fair - suggest that the volume of trade with Western Europe will rise moderately to a new peak level in 1971. The following tabulation shows the unadjusted trade returns for Western Europe and China's four major partners for the first quarter of 1970 and 1971:

	Million US\$					
	January - March 1970			January - March 1971		
	Turnover	Imports	Exports	Turnover	Imports	Exports
Western Europe	252	141	111	220 a/	115 a/	105 a/
Of which:						
West Germany	67	43	24	52	31	31
United Kingdom	60	38	22	28	9	19
France	44	28	16	53	37	16
Italy	31	12	19	31	10	21

a. Estimates based on incomplete returns.

Imports are off - sharply so from West Germany and the United Kingdom - in comparison with early 1970. However, imports in the first quarter of 1970 were extraordinarily high, so import performance should look better as the year progresses. Exports are at roughly the same level as in 1970 and are expected to rise as China's domestic economy continues to gain momentum.

27. Reports from the 1971 Spring Canton Fair indicate that it was generally successful from the viewpoint of both buyers and sellers. Japan again captured the biggest part of the steel contracts, although Austrian and Swedish firms reportedly sold substantial quantities of special steel. British and German negotiations continued after the fair. West European traders also shared in Chinese purchases of chemicals, machine tools, and transport equipment. Traders found most Chinese goods in adequate supply at moderate prices. There was an increased willingness on China's part to satisfy buyer's demands, especially on style and product specifications. Also, increased sales of Chinese nonferrous metals have been noted.

SECRET

28. Imports of transport equipment should increase as deliveries begin under French and West German contracts for 120 diesel and electric locomotives. China is showing continued interest in truck imports and is seriously negotiating with Britain and possibly West Germany for commercial aircraft. Nonferrous metals, a major import commodity for the past two years, will be a question mark. Early this year, China announced that it would by-pass the London Metals Exchange and deal directly with copper-producing countries. Agreements have already been signed with Chile and Peru and negotiations are under way with Zambia. In January of this year, Britain recorded no deliveries of nonferrous metals or industrial diamonds to China.

29. Negotiations with West European fertilizer producers are now taking place; faced with oversupply conditions and Japanese competition, the producers may have to cut prices even further. As a result, even if volume is maintained, the value of imports of Western European fertilizer may fall. Also, there have been no new contracts for French wheat. Purchases of machinery and complete plants will undoubtedly rise as China gears up to meet the goals of the new Fourth Five-Year Plan (1971-75). However, the effects of new contracts for complete plants would not be felt for two or three years.

30. Exports to Western Europe have been on an upward trend and may rise to \$400 million in 1971. Nonferrous metals exports should rise as China appears willing to export these in greater quantities. Furthermore, the accommodation of buyers witnessed at the Canton Fair and the desire of the West European countries to increase trade with China should improve sales of manufactures. However, the traditional Chinese export mix will continue to face the problems of limited demand in Western Europe coupled with the restrictions of the European Community's agricultural policies.

31. The growth of Sino-West European trade will continue to be constrained by Western Europe's competitive position vis-a-vis Japan particularly in bulk products such as steel and fertilizer and by the large trade deficits which China incurs each year. Closely related to the latter is China's inability to increase exports of its traditional products to developed countries. Nonetheless, the products of West European technology are of great value to China's economic development and can contribute considerably to China's industrial advance under the new five-year plan. Because China has an understandable aversion to dependence on a single source of imports, Western Europe will continue to be an important component of China's total trade. And even though China has a firm policy of economic "self-reliance", Western Europe has a dynamic technology that China will find profitable to exploit for the foreseeable future.

SECRETSummary and Conclusions

32. Western Europe's trade with Communist China expanded by more than 50% from 1960 to 1970 and now accounts for almost 24% of China's total trade. Its share of Sino-Free World trade, however, has fallen from 48% to 30% as other Free World nations, notably Japan, have made even greater gains. China's turnover with Western Europe in 1970 was up to \$1,012 million, just below the record level of 1967. After two years of improvement in the trade balance, China's trade deficit with Western Europe worsened in 1970 when imports grew to \$658 million and exports fell to \$354 million. Within Western Europe, four nations - West Germany, the United Kingdom, France, and Italy - account for about three-quarters of the trade with China.

33. China benefits from trade with Western Europe by acquiring valuable inputs for industry and agriculture and up-to-date technology for industrial modernization. In addition, much of the imports of precision instruments, electronic equipment, and strategic metals find direct applications in China's modern weapons program.

34. Imports from Western Europe are concentrated in the products of modern industry - fertilizer, steel, nonferrous metals, machinery, and transport equipment. Fertilizer imports, estimated at \$120 million in 1970, were back near the peak level of 1967. Iron and steel have dropped off sharply beginning in 1968 as the bulk of Chinese steel imports shifted to Japan. Purchases of \$150 million worth of nonferrous metals and over \$20 million worth of diamonds in 1970 continued the high levels of the past three years. Machinery and equipment - the major import category during the period of peak deliveries of complete plants in 1966-67 - were about the same in 1970 as in 1969 - \$65 million. Chinese exports find fairly good markets in Western Europe, accounting for over 20% of China's exports to the Free World. Exports feature crude materials, foodstuffs, textiles, and light manufactures.

35. Trade with Western Europe should advance moderately to a new peak level in 1971 even though first quarter returns show imports down and exports about the same as in the first quarter of 1970. There are no contracts for French wheat, and imports of nonferrous metals may suffer as China begins dealing directly with copper-producing countries. Japanese competition will again limit sales of fertilizer and steel. On the plus side, imports of transport equipment will be higher as deliveries begin on contracts for locomotives, and China shows continued interest in truck purchases. Also, there are hopes for increased purchases of machinery with

SECRET

SECRET

China's renewed interest in complete plants and the beginning of a new five-year plan. Exports to Western Europe should rise in 1971 as sales of nonferrous metals increase and China becomes more amenable to buyer's specifications for consumer goods.

36. In the future, Sino-Western European trade will continue to face three problems: (a) Western Europe's competitive position vis-a-vis Japan, particularly in bulk commodities such as steel and fertilizer where larger transport costs give Japan a considerable advantage; (b) the continued large Chinese trade deficits; and (c) the difficulties of increasing exports of traditional Chinese products to developed countries. However, China will require many of the products of West European technology as it implements the new five-year plan, in part because of China's aversion to dependence on a single source of imports. Thus, Sino-Western Europe trade should continue to rise at a moderate rate and Western Europe will continue to be an important factor in China's total trade.

SECRET